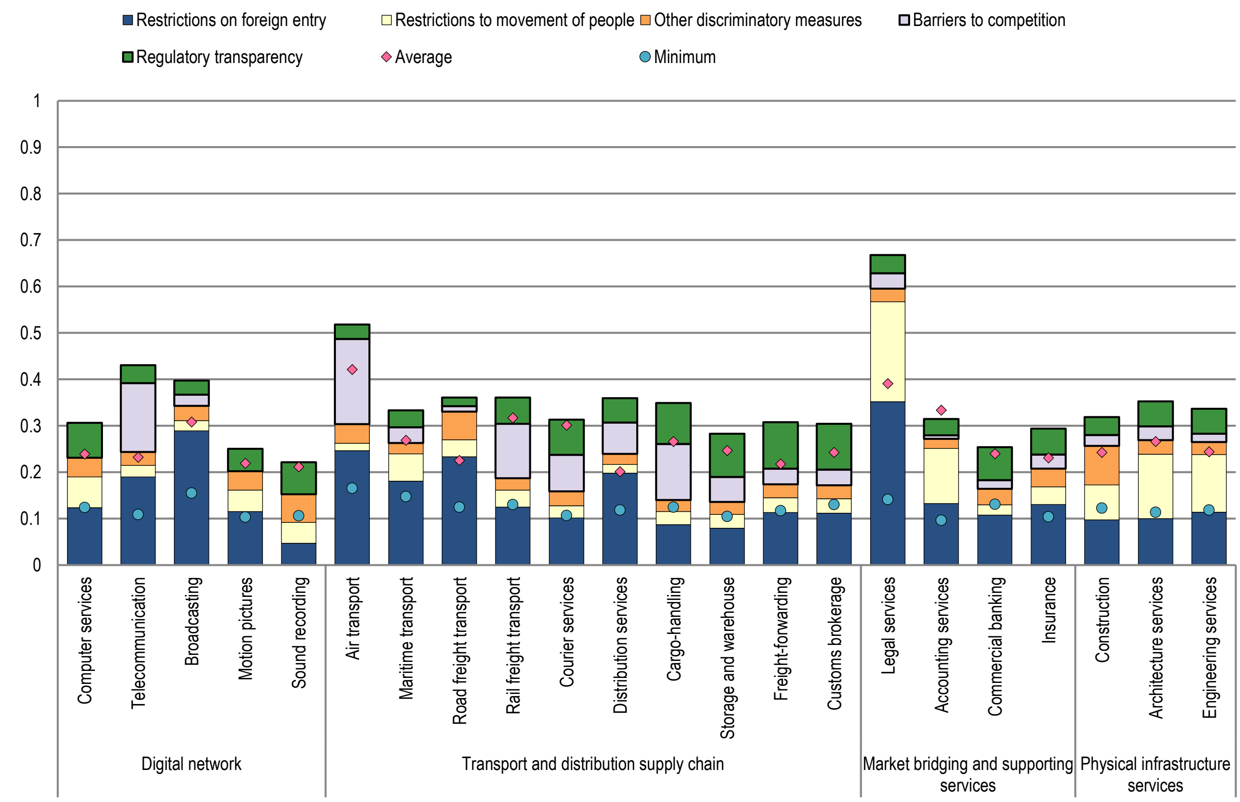
OECD Services Trade Restrictiveness Index (STRI): Malaysia 2019

Malaysia exported services worth USD 40 billion (0.7% of world services exports) and its services import value amounted to USD 45 billion (0.8% of world services imports) in 2018. The largest exporting sectors are travel services, while other commercial services are the largest import categories. Malaysia's score on the STRI index in the 22 sectors is shown below along with the average and the lowest score among the 46 countries included in the STRI database for each sector. Malaysia has a lower score on the STRI than the average in legal services but remains above average in other sectors.

STRI by sector and policy area (2019)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which contains information on regulation for the 36 OECD Members, Brazil, China, Colombia, Costa Rica, India, Indonesia, Malaysia, Russia, South Africa and Thailand. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people). The indices are based on laws and regulations in force on 31 October 2019.

Horizontal policy measures

The scores across sectors can be explained in large part by general regulations. Foreign firms are required to incorporate in Malaysia to provide services and at least two directors need to be residents there. Foreigners cannot acquire certain types of land and real estate, including properties valued at less than RM1 million (about 240,000 USD), while large acquisitions (above RM20 million) are subject to government approval. Foreign investments are generally not subject to government approval except in certain strategic sectors such as telecommunications, air transport, and distribution services. Malaysia applies labour market tests for natural persons seeking to provide services in the country on a temporary basis as intra-corporate transferees. There are, however, no similar requirements for contractual and independents services suppliers. The duration of stay for intra-corporate transferees is 24 months while the other two categories of services suppliers can stay up to 12 months on their initial permit through a Professional Visit Pass. There are no discriminatory taxes or subsidies.

Foreigners have access to the public procurement market but local suppliers receive a price preference above certain thresholds.

The sectors with the relatively lowest STRI scores

Accounting services, courier services and sound recording are the three sectors with the lowest score relative to the average STRI across all countries. The scores for accounting services cover also auditing services, both of which are regulated professions in Malaysia. While foreign ownership of accounting and auditing firms is allowed, equity ownership is limited only to licensed professionals. Foreign professionals can practice both professions in Malaysia after taking a local examination and having established residency in the country. Courier services, the regulatory environment is relatively open and subject mostly to economy-wide regulations. The government controls a major services provider in the sector while the decisions of the regulator are not entirely independent from the government. In sound recording services are subject only to the general regulatory framework.

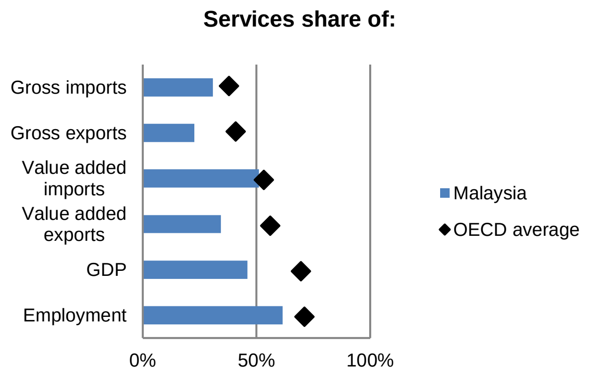
The sectors with the relatively highest STRI scores

Telecommunication, distribution services and legal services, are the three sectors with the highest score relative to the average STRI across all countries. In the telecommunications sector, foreign equity participation is capped at 70% and subject to net economic benefits. Additionally, the absence of certain best practice regulation affects the condition of competition in the market. In distribution services, 70% foreign equity limits apply for investments in hypermarkets, although full foreign ownership is permitted in smaller establishments such as department stores and superstores. Foreign investments in this sector are subject to approval from the Ministry of Domestic Trade and Consumer Affairs. Conditions for approval vary depending on the format of the distribution services envisaged but generally include consideration of contribution to the socio-economic development of Malaysia and zoning regulations. In legal services, foreigners are not allowed to establish law firms or representative offices in Malaysia for domestic law, and foreign professionals need to requalify locally to practice Malaysian law.

Recent policy changes

Malaysia has eased foreign investment conditions in services in the course of recent years including in telecommunications, professional, distribution and courier services.

Efficient services sectors matter



Services account for about half of GDP and over 60% of employment in Malaysia, showing that labour productivity is lower in services than in other sectors.. The Trade in Value Added (TiVA) database reports that services account for more than 20% of gross exports but 34% of value added exports. Innovation and adoption of technology relies on access to knowledge and to the networks, people, goods and services that carry the knowledge around the world.. In this context, Malaysia could benefit from more open markets for services trade.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Read more about services trade policies and their impacts in this publication: Services Trade Policies and the Global Economy
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org